Series 200 - Programming Policy
ADS 249 – Development Credit Authority (DCA)

Table of Contents

ADS 249 – Development Credit Authority (DCA)

249.1 OVERVIEW

Effective date: 01/28/2002

Development Credit Authority (DCA) is the legislative authority that permits USAID to issue partial loan guarantees to private lenders to achieve the economic development objectives in the Foreign Assistance Act of 1961, as amended (FAA). DCA also authorizes USAID to make direct loans. DCA guarantees require true private sector risk-sharing where the USAID share of a lender's risk does not exceed 50 percent (except as otherwise approved by the **Credit Review Board (CRB)**). DCA permits USAID to offer a mixture of grant and credit assistance in settings where USAID is seeking more disciplined and sustainable assistance relationships.

DCA is a low-cost tool to introduce private lenders and investors to creditworthy but underserved markets. It is based on the assumption that sustainable economic growth will occur when private financial markets in developing countries (LDCs) learn to emulate U.S. financial markets by mobilizing domestic capital and putting it to work.

DCA cannot be used for loans or guarantees to sovereigns, which could be subject to Paris Club rescheduling. DCA is intended for use instead of more costly grant assistance when a Mission can achieve the same goals, the borrowers are reasonably creditworthy, the projects are financially viable, and market imperfections prevent funding from commercial sources.

Leverage is a key factor that makes DCA important. Leverage results when USAID partial guarantees induce private lenders and investors to finance activities that support the Strategic Objectives (SOs) of Missions. Leverage also results from Federal budget scoring rules under the Federal Credit Reform Act of 1990 (FCRA), which permits Federal agencies to issue loans and loan guarantees having a nominal value far in excess of the value of required appropriations. For example, on average, every dollar of USAID contingent liability under DCA guarantees is expected to cost Missions/Operating Units two to seven cents. As and when USAID starts making direct loans under DCA authority, it is estimated that the cost will be approximately the same for every dollar disbursed. As a result, Federal agencies that can achieve some of their goals with credit assistance have an enormous budget advantage over those that cannot.

Under DCA, Missions/Operating Units have the flexibility to fund their activities with 100 percent grants, or they can transfer some of their funds to the DCA Account and in effect purchase the right to issue full faith and credit USG guarantees or loans having a value far in excess of the sums transferred. The actual cost to a Mission/Operating Unit, termed the "**subsidy cost**" (as defined in the ADS Glossary), to issue a loan or guarantee is determined by the Agency's Chief Financial Officer (CFO) using risk assessment models approved by OMB.

Because it is subject to independent risk and cost assessments, true risk-sharing with private sector partners, the prohibition on sovereign lending activities, and other credit reforms, DCA is a disciplined and market-based approach to USAID's use of credit. For these reasons, Congress has recognized that USAID can effectively manage and implement credit assistance. USAID's private risk-sharing partners, having assumed the majority of the financial risk, are motivated to perform serious independent risk analyses and provide adequate project management and oversight. The result is that Mission project oversight burdens will be more manageable.

249.2 PRIMARY RESPONSIBILITIES

Effective date: 01/28/2002

a. Missions and Operating Units may execute DCA obligating agreements in a manner consistent with their authorities to obligate other forms of assistance. There is no dollar limitation on the authority of Mission Directors and Assistant Administrators to obligate DCA funds. While USAID/Washington (USAID/W) has certain independent responsibilities to ensure the financial soundness of DCA activities, Missions/Operating Units have sole responsibility for the developmental soundness of DCA activities. Included in Mission/Operating Unit responsibilities are

- Identifying, designing, and paying for activities;
- Implementing, overseeing, monitoring, and evaluating activities;
- Requesting budget authority in the Annual Report Process;
- Preparing Congressional Presentation and Congressional Notification materials, as required;
- Coordinating with EGAT/DC in its efforts to prepare economic and financial viability analyses;
- Requesting preliminary and final subsidy cost estimates from USAID/W;
- Drafting and signing obligating agreements in cooperation with and subject to approval by Agency lawyers;
- Providing audited financial statements of local intermediate financial institutions and/or borrowers, and other information, as needed by USAID/W to make periodic subsidy cost re-estimates;
- Requesting assistance from USAID/W technical specialists for any of the above activities, as needed; and
- Developing plans (in conjunction with the Bureau for Economic Growth, Agriculture and Trade's early warning systems) for monitoring the financial

and credit performance of DCA activities as outlined in **ADS 623**, Financial Management of Credit Programs.

b. Mission Controllers are responsible for managing certain DCA financial events and reporting to the Bureau for Management, Office of Financial Management (M/FM) as outlined in **ADS 623.3.2**.

c. The Bureau for Economic Growth, Agriculture and Trade (EGAT – formerly known as the Bureau for Global Programs, Field Support, and Research) Office of Development Credit (EGAT/DC) is responsible for establishing and maintaining technical and financial expertise, including DCA credit expertise, and making such expertise available to Missions under its Mission support role. In addition, EGAT/DC is responsible for portfolio management. EGAT/DC is responsible for monitoring and managing DCA Accounts as necessary in order to manage the claims process and other disbursements necessary to service DCA activities. EGAT/DC also is responsible for performing the following activities, either directly or upon request:

- Performing preliminary risk assessments and credit subsidy cost estimates of proposed activities to assist a Mission/Operating Unit in determining whether the budget cost of a proposed DCA activity is affordable to the Mission/Operating Unit;

- Performing final risk assessments and providing specific support to the CRB on credit risk analysis;

- Preparing economic and financial viability analyses in accordance with the appropriate Mandatory Reference of this chapter in order to justify the use of DCA assistance and assist the determination of the subsidy cost;

- Assisting the Missions/Operating Units in developing early warning systems for monitoring the financial and credit performance of DCA activities;

- Troubleshooting problem DCA loans or guarantees in coordination with Missions/Operating Units;

- Managing the DCA Financing Accounts, which includes annual budget estimates, making funds available to pay claims, and assisting Missions/Operating Units in tracking financial Early Warning Reports from the outsourcing contractor to mitigate the risk to the U.S. Government (USG) per **OMB Circular A-129**;

- Performing re-estimates required under the Federal Credit Reform Act and regulations; and

- Assisting in determining the financial rates of return for proposed activities and assisting in developing appropriate financial structures and documents for proposed activities.

d. The Assistant Administrator of EGAT (AA/EGAT) is responsible for representing DCA before the Congress, the Office of Management and Budget (OMB), and the General Accounting Office (GAO), as required.

e. The Chief Financial Officer (CFO) is responsible for

- Chairing the Credit Review Board (CRB) and making a final determination of the credit subsidy cost of each proposed DCA activity;

- Ensuring that the Agency is in compliance with **OMB Circular A-129**; and

- Providing a contact point with OMB on credit budget issues, such as OMB Circular A-11 and the President's Budget Submission, and on specific credit subsidy issues.

f. The Bureau for Management, Office of Financial Management (M/FM) is responsible for providing financial management services for all DCA-funded activities. M/FM maintains the Agency proprietary and budgetary accounting systems for USAID Credit Programs in accordance with **ADS 623**, Financial Management of Credit Programs. M/FM is responsible for managing a Billings and Collections Unit that services all Agency credit programs, including DCA. M/FM responsibilities include

- Managing a contract with a private financial institution for the provision of certain loan servicing, accounting, paying and transfer agent, and other financial management functions and services;

- Preparing DCA financial reports, as required, in addition to including DCA operations as an integral part of the audited Agency Consolidated Financial Statement;

- Ensuring funds transfers, in coordination with Missions/Operating Units, geographic Bureaus, and the Bureau for Program and Policy Coordination, Office of Budget (PPC/B); and

- Notifying Missions/Operating Units of expenditure amounts under a DCA obligation on a periodic and timely basis.

g. The Credit Review Board (CRB) is an internal advisory committee composed of representatives from interested Bureaus and USAID/W units. The CRB is responsible for recommending to the CFO the final estimated subsidy cost of each proposed activity. As defined in its Charter, the CRB is further responsible for recommending policies and procedures designed to ensure the financial soundness of all USAID credit programs, including DCA. The CRB's responsibilities include

- Reviewing the financial and economic viability of proposed DCA activities (*see* section **249.3.1g** (financial viability) and **249.3.1r** (economic viability));

- Reviewing the final estimated credit subsidy cost of proposed activities and making recommendations to the CFO;

- Preparing summaries of relevant issues for the CFO; and

- Monitoring the financial performance of DCA activities, including reviewing re-estimates and modifications of credit subsidies, as required.

h. The Office of the General Counsel (GC), acting through GC/EGAT (formerly GC/G) and Regional Legal Advisors, is responsible for drafting and negotiating loan and loan guarantee agreements and other credit assistance agreements, and advising on compliance with the law, regulations, and other USAID guidance governing DCA.

i. The Bureau for Policy and Program Coordination (PPC) is responsible for policy oversight for DCA. PPC represents USAID on all interagency policy-making groups with responsibility for debt and credit matters.

j. Private sector "partners" are responsible for implementing activities in accordance with the terms and conditions of the applicable direct loan or loan guarantee agreements and applicable USAID regulations.

249.3 POLICY AND PROCEDURES

249.3.1 Guiding Principles

Effective date: 01/28/2002

The following are guiding principles of DCA:

a. DCA will be used as credit enhancement where development objectives can be achieved more effectively with credit assistance than with grant assistance alone.

b. DCA is not a specific program but merely a financing tool for all Missions/Operating Units, to be used in addition to or instead of grant funding where appropriate. Accordingly, the principles and policies applicable to the use of Development Assistance grant funding are presumed to be applicable to DCA funding, unless otherwise indicated.

c. DCA loan guarantees are preferable to direct loans.

d. DCA will be a demand-driven initiative, with Missions/Operating Units having primary responsibility for designing, authorizing, and implementing activities in support of approved Strategic Objectives and within Administration and Congressional priorities for assistance.

e. DCA responsibilities are divided between Missions and USAID/W. Missions/Operating Units are responsible for development soundness. The CRB and CFO are responsible for financial and economic soundness. DCA may only be used where there are reasonable prospects of repayment. DCA must not be used where the subsidy cost of an activity exceeds 30 percent of the principal amount to be loaned.

f. DCA requires true private sector risk sharing. For loan guarantee transactions, DCA must not cover more than 50 percent of a lender's risk unless the CFO approves.

True risk sharing with private lenders is generally intended to refer to a guaranteed lender's own risk, not the overall project risk carried by other private sector parties. The DCA true risk-sharing principle will generally be met where USAID's risk-sharing partner is placing its own capital at risk, the partner is a private nongovernmental entity with a profit motive or the equivalent, and if defaults occur, the partner's net losses will equal or exceed USAID's. Nonprofit entities are deemed to have the equivalent of a profit motive when the risk analysis demonstrates a record of prudent risk management.

The following example illustrates true risk-sharing: If a $10 million wholly private sector activity requires $4 million in equity and $6 million in debt financing and a single lender proposes to lend $6 million, a DCA guarantee could cover 50 percent or $3 million of loan principal (or, less preferably, principal and interest).

Using the same example, if two lenders were each to lend $3 million, a DCA guarantee could cover half of **each** lender's loan but not all of the first lender's risk and none of the second lender's risk. This is true notwithstanding the fact that 70 percent of project risk is held by other private investors. The reason is that USAID will have analyzed its contractual partners but not other private investors that are taking risk.

The sound operation of DCA depends heavily on selecting true risk-sharing partners that have a motive to carry out effective risk analysis and project implementation. True risk-sharing is not compromised if partners take and hold security interests in collateral in accordance with normal lending practices. However where practicable the collateral should be held for the benefit of USAID as well as the lenders in proportion to their relative risk. Note that in portfolio guarantee transactions involving many individual loans, collateral-sharing arrangements are not practicable.

g. DCA financing must not be used unless it is probable that the transaction would not go forward without it, taking into consideration whether such financing is available for the term needed and at a reasonable cost. Guarantees of principal are generally preferable to guarantees of principal and interest if the same goals can be achieved.

h. Loans made with DCA assistance must reflect market rates. Any question regarding market rates must be resolved through joint consultation with the Mission/Operating Unit and EGAT/DC.

i. DCA fee structures are to be designed to encourage utilization, while taking into consideration local practice, the development rationale of the DCA project, and the costs of administering the project.

j. Currency mismatches are strongly discouraged. Currencies earned by DCA activities should match the borrowers' liabilities unless adequate currency exchange structures are in place. In other words, if the financial viability analysis indicates that revenues to repay the debt are local currency revenues, then the underlying loan should be local currency denominated.

k. DCA will be used to produce greater development impact and improve Agency performance as reported under the Government Performance and Results Act (GPRA). DCA will not be used merely for budget support or to increase the nominal assistance levels to specific borrowers or sectors. Preference will be given to credit enhancement activities that are of a wholesale as opposed to retail nature where USAID agrees to support a broad range of developmentally significant activities that meet defined eligibility requirements.

l. DCA will be used primarily in USAID presence countries in support of Agency Strategic Objectives and in support of USAID-assisted policy and institutional reforms. DCA is also appropriate for use in support of global priorities and as part of an exit strategy in countries where USAID assistance is being phased out.

m. DCA will be used to address market imperfections.

n. Like programs offered by EX-IM Bank, Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA), DCA provides another option for engaging private entities to advance the strategic interests of the U.S. Government.

o. To the maximum extent practicable (and in a manner consistent with OECD Tied Aid and Export Credit Arrangements), DCA activities will use or employ U.S. technology, firms, and equipment. (See Mandatory Reference, **H.R. 1486 section (d)(8)**)

p. Sovereign governments are not eligible as DCA borrowers or lenders. Subsovereign and parastatal entities are eligible to receive assistance under DCA if they are eligible to receive development assistance under the FAA and have Interagency Credit Risk Assessment System (ICRAS) ratings in the range of B to D-.

q. Each activity funded under DCA must be financially viable (i.e., it must have sufficient cash flows to meet all operational costs and service all debt). The CFO makes all final determinations regarding the financial viability and creditworthiness of a DCA activity. Activities must be financially sustainable through revenues generated directly by activity operations. However, where host government subsidies are required, such subsidies should be firmly identified and committed, and not amorphous or open-ended.

r. Each activity must be economically viable. An economically viable activity is a development project that aims to correct a financial market imperfection in a host country, region, or targeted sector. A market imperfection exists where the capital markets fail to provide private sector lending to otherwise creditworthy projects or sectors. DCA allows USAID to act as a lender of last resort to bridge these market imperfections.

s. Private sector "partners" are responsible for taking the lead role in project implementation and project management because they bear the majority of the risk in every DCA project.

t. DCA loan terms must not exceed 20 years without CFO approval.

249.3.2 Selected Statutory Provisions

Effective date: 01/28/2002

The following are selected statutory requirements of the DCA Authority first enacted by Section 591 of the FY 1998 Appropriations Act. (In some cases, Agency policy is more stringent than the statute.)

a. The policy provisions in Part I of the FAA applicable to development assistance activities also apply to DCA activities, as appropriate. (See Mandatory Reference, **H.R. 1486 section (d)(1)**)

b. The provisions of Section 620(q) of the FAA, or any comparable provisions of law (e.g., the Brooke Amendment), must not be construed to prohibit assistance to a country in the event that a private sector recipient of DCA program assistance is in default in its payment to the United States for the period specified in such section. (See Mandatory Reference, **H.R. 1486 section (d)(2)**; see also **ADS 623**)

c. DCA assistance will be offered on the terms and conditions, including fees charged, that USAID determines. (See Mandatory Reference, **H.R. 1486 section (d)(3)**)

d. The principal amount of DCA direct loans or loan guarantees in any fiscal year, with respect to any single country or borrower, may not exceed $100,000,000. (See Mandatory Reference, **H.R. 1486 section (d)(3)**)

e. No payment may be made under any DCA loan guarantee for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible. (See Mandatory Reference, **H.R. 1486 section (d)(3)**)

f. All DCA loan guarantees in accordance with the terms of such guarantees will constitute obligations of the United States, and the full faith and credit of the United States is pledged for the full payment and performance of such obligations. (See Mandatory Reference, **H.R. 1486 section (d)(4)**)

g. DCA assistance must be in the form of co-financing or risk-sharing. No DCA assistance may be provided to a borrower unless USAID determines that there are reasonable prospects of repayment by such borrower. The investment or risk of the United States in any one development activity may not legally exceed 80 percent of the total outstanding investment or risk. (See Mandatory Reference, **H.R. 1486 section (d)(5)**)

249.3.3 Activity Development and Design

Effective date: 01/28/2002

Generally, the activity development and design processes in **ADS 202**, Achieving, are applicable to DCA-funded activities. In addition, there are procedures that are DCA specific, as follows:

a. Economic and Financial Viability Analyses. EGAT/DC, with assistance from Missions/Operating Units, will analyze the financial and economic viability of proposed activities. The Credit Review Board (CRB) reviews these analyses to determine whether the activity meets the policy guidelines in this chapter and whether any deviations are required. These analyses are also used for the USAID/W controlled risk assessment.

b. Allocation of Budget Authority (BA). The Congress appropriates DCA BA in annual appropriations acts. The BA generally will be allocated among competing Missions as part of the normal budget process. The types of BA that have been used also include the authority to transfer funds from other accounts for DCA purposes.

c. Procedures. Detailed DCA procedures, including a chronology of events and an estimated timeline, can be found in the **DCA Operations Manual**. A Mission contemplating a DCA activity should consult with the appropriate regional Bureau representative to the DCA working group and its regional lawyers, who will guide the Mission through every step of the process.

The following is a summary of generally recommended DCA procedures:

(1) The process normally begins with a one- or two-page summary proposal of the activity sent by the Mission to its own regional Bureau representative, who in turn shares it with the EGAT Bureau's Development Credit Office (EGAT/DC). The USAID/W informal review of the proposal results in a preliminary indication as to whether the activity is suitable for DCA financing and a rough estimate of the range of probable subsidy costs of the activity.

(2) If the estimated range of costs fits within the Mission's budget priorities and the proposal is otherwise reasonably suited for DCA financing, the Mission begins detailed activity design, while EGAT/DC begins the required economic and financial viability analyses. Mission economists, contractors, EGAT sectoral and/or credit experts, and other Agency units are available on request to assist in the design and analysis processes.

(3) The end result of the detailed design process is an Action Memorandum from the Mission/Operating Unit through the CRB to the CFO which indicates internal Mission/Operating Unit approval of the activity and requests the CFO to determine and/or confirm the (a) final subsidy cost to be charged to the Mission/Operating Unit, (b) suitability of the activity for DCA financing, and (c) availability of transfer authority within the statutory ceiling or the availability of other DCA budget authority.

(4) The CRB reviews the Action Memorandum and makes a recommendation to the CFO to approve or disapprove the activity. The CRB may request additional information or condition its approval on such additional information or actions as indicated.

(5) The CFO makes a decision. If the activity is approved and the Mission/Operating Unit has already received an allocation of DCA budget authority or transfer authority, the Mission/Operating Unit is free to draft, negotiate, and execute the loan or loan guarantee agreement (in conjunction with GC lawyers) and begin activity implementation. If the activity is approved but the Mission does not yet have an allocation of DCA budget authority, the Mission and its regional Bureau representative seek to resolve this issue.

(6) After the CFO approves an activity, the Mission/Operating Unit prepares a Congressional Notification (CN). The Mission/Operating Unit

clears the CN following its normal procedures, with clearance from EGAT/DC.

249.3.4 Loan Guarantees

Effective date: 01/28/2002

The following are the policies and procedures of DCA loan guarantees:

a. Borrowers, not USAID, select their own lenders. Generally, USAID should reserve the right to approve the lender selection procedure, the actual lender or lenders selected, and the terms of loans guaranteed.

b. DCA guarantees may be for dollar- or non-dollar-denominated debt. However, in the latter case, the total USAID contingent liability must be capped or limited in dollar terms.

c. Beneficiaries of the USAID guarantee generally should be required to pay a semi-annual utilization fee based on the guaranteed portion of outstanding principal of the guaranteed loan. The authorizing official should set the utilization fee at not less than 0.25 percent per annum (except as described in this paragraph). In addition, a one-time activity origination fee (also known as "commitment fee") of not less than 0.25 percent of the maximum guaranteed principal amount should be charged (except as described in this paragraph). The authorizing official should work with EGAT/DC to come up with a fee structure (including timing and currency of fee payments) that will encourage utilization, while taking into consideration local practice, the development rationale of the DCA project, and the costs of administering the project. In the event that it is determined that the origination fee should be waived or credited toward the utilization fee, the utilization fee may not be set at less than 0.5 percent per annum. The fee structure must be justified in the activity analysis.

d. A DCA guarantee may be a guarantee of payment or of collection, depending on the needs of the activity. USAID prefers guarantees of collection because this maximizes the guaranteed party's incentive to properly manage the collection process.

e. Missions/Operating Units may impose conditions on the lender selection process, including, for example, a public bidding process or a public notice of the borrower's intention to borrow.

f. Missions must reserve the right to approve the interest rate and other terms and conditions of loans to be guaranteed. Missions must reserve the right to refuse to issue a guarantee if it is believed the terms are not sufficiently advantageous to the borrower. Where the USAID guarantee is intended to cover a broad portfolio of loans, the Mission/Operating Unit's approval rights may be exercised by the approval of standard forms of loan agreements.

g. DCA guarantee agreements generally can be categorized in four ways:

(1) **Portfolio guarantees**, where USAID agrees to share in the risk of a broadly defined category of bank loans with a view toward inducing local banks to extend credit to an underserved sector.

(2) **Project-specific guarantees**, where USAID is using DCA for specific credit enhancement purposes and the borrower, lender, and uses of the loan proceeds are known.

(3) **Portable guarantees**, where USAID is using DCA for specific credit enhancement purposes and the purpose and borrower are known, but the lender is not yet known. In these cases, the minimum credit rating (Standard & Poor's, Moody's, etc.) is established and the risk calculation and subsidy cost are based on the assumption that the eventual lender will have a rating equal to or above the minimum set.

(4) **Bond guarantees**, where USAID protects investors on a bond issuance. This mechanism is used for municipal or private sector financing.

Agency lawyers should draft guarantee agreements using precedent agreements appearing on the GC Home Page at the following URL: **http://inside.usaid.gov/A/GC/**. Authorizing officials have the authority to negotiate and sign guarantee agreements with the appropriate input and clearance from GC. Copies of guarantee agreements, when executed, must be forwarded to M/FM and to GC/EGAT.

249.3.5 Direct Loans [RESERVED]

Effective date: 01/28/2002

Note: This policy guidance will be provided as and when the Agency begins to use DCA for direct loans.

249.3.6 DCA Appropriations Process

Effective date: 01/28/2002

Federal agencies may not issue loans or guarantees unless Congress has specifically appropriated funds to cover the estimated life of project costs to taxpayers, as expressed in present discounted value terms. This cost is referred to as the "subsidy cost." Congress may directly appropriate a specific "subsidy" amount for the DCA Account in a line item appropriation. In addition, or alternatively, Congress may appropriate "transfer authority" (as in Fiscal Year 2001) authorizing the transfer of up to a stated amount of appropriated funds in specified appropriation accounts to the DCA Account to cover the estimated subsidy costs of approved activities.

USAID prefers DCA transfer authority because it gives Missions/Operating Units maximum flexibility and maximum "ownership." With transfer authority, Missions are free to pursue their SOs with grant funds costing 100 cents on every dollar of assistance or they can transfer a portion of their operating year budget (OYB) to the DCA Account (within available statutory ceilings) and in effect use DCA to induce risk-sharing partners to expend much larger amounts of their own capital on Mission-approved activities.

Future annual appropriation acts will establish a ceiling on transfer authority and indicate which appropriations accounts are subject to the transfer authority.

249.3.7 Procurement Source and Origin Rules

Effective date: 01/28/2002

DCA is exempt from the "Buy America" rules of FAA Section 604(a). (See Mandatory Reference, **H.R. 1486 section (d)(2)**) However, the DCA statute requires that DCA activities, to the maximum extent practicable, use or employ U.S. technology, firms, and equipment. In certain cases where credit assistance is associated with grant assistance, donor rules against tied aid may result in conflict. Therefore, tied aid procurement issues should be handled on a case-by-case basis with the assistance of GC and PPC and, as appropriate, the Treasury.

249.3.8 Audit and Evaluation

Effective date: 01/28/2002

The Bureau for Policy and Program Coordination, Center for Development Information and Evaluation (PPC/CDIE) is responsible for DCA program-wide evaluations. Each Mission/Operating Unit is responsible for evaluating its activities under DCA. The CFO is responsible for individual credit program Financial Statement preparation, as deemed necessary by Agency management. In addition, DCA will be an integral part of the audited Agency consolidated financial statements.

249.3.9 Guarantee Claims

Effective date: 01/28/2002

Missions/Operating Units should be the focal point for investor or lender claims under DCA guarantees. Missions/Operating Units should determine if claims are valid and request EGAT/DC to process claims payments and arrange wire transfers of funds directly to claimants. Disbursement of claims to the guaranteed party must be handled as indicated in **ADS 623.3.2**.

249.3.10 Budget Programming and Funds Transfer Processes (Credit Subsidy and Operating Expense (OE) Costs and Transfer Authority)

Effective date: 01/28/2002

USAID's annual budget guidance to the field will instruct Missions/Operating Units to include requests for DCA budget authority. Ideally, the request for DCA budget authority will be included along with requests for the Mission's grant and operating expense (OE) budget. Missions/Operating Units should also estimate and include in their budget requests their OE expenditures attributable to DCA activities, pursuant to guidance issued by the Agency.

When a DCA activity is approved and the subsidy cost determined, the Mission/Operating Unit must transfer its funds into the DCA Account before it can execute the guarantee agreement or other obligating instrument. The regional Bureau's program office manages the responsibility to effect the transfer of funds.

Generally, the transfer of funds into the DCA account follows these steps:

- For Missions, the Bureau makes an appropriate reduction from the funds allowed to the Mission, thus regaining USAID/W control of the necessary funds.

- The Bureau and PPC/B make a request to OMB and Treasury to reduce the budget authority level in the relevant appropriation account, and to increase by a commensurate amount the budget authority level of the DCA Account.

- OMB makes an apportionment of DCA Account budget authority to USAID.

- PPC/B makes an allowance of the DCA budget authority to the Bureau.

- The Bureau sends an e-mail regarding the allowance of the funds to the Mission (the e-mail will provide a funding citation to enable the Mission Controller to enter the funding in the Mission accounting system).

The funds are legally obligated in the case of a loan guarantee when an authorized USAID official and a guaranteed party sign a loan guarantee agreement or a binding guarantee commitment letter.

249.3.11 Financial Management

Effective date: 01/28/2002

Pursuant to **ADS 623**, Financial Management of Credit Programs, Mission Controllers are required to track and report certain DCA financial transactions.

Another Mission financial responsibility is to assist in ensuring timely repayment of USAID guarantee fees and other charges that are normally billed directly to guaranteed parties by the financial intermediary selected by M/FM (currently Riggs Bank) to perform such functions. Depending on the agreement between USAID and the Guaranteed Party and/or lender, Mission Controllers may be requested to collect local currency fee payments and to make local currency claims payments. M/FM will provide loan-servicing functions in conjunction with the same private financial intermediary under an accounting and Paying and Transfer Agent contract. Mission Controllers may be asked to assist in collection efforts and otherwise help to ensure that borrowers perform certain responsibilities under DCA assistance.

249.3.12 Authorization and Obligation
Effective date: 01/28/2002

DCA assistance activities are authorized by Agency officials under delegations of authority set forth in ADS 101, Agency Programs and Functions, and ADS 103, Delegations of Authority. Missions/Operating Units must use procedures and forms for authorizing and approving a DCA activity that are consistent with those used for other assistance activities. A sample form of Activity Authorization for DCA assistance is included in the DCA Operations Manual and indicates the level of detail that will appear in most Mission authorizations. (See Additional Help, **DCA Operations Manual**) DCA funds are legally obligated when an authorized USAID official and a guaranteed party sign a loan guarantee agreement or a binding guarantee commitment letter.

249.3.13 Deviations
Effective date: 01/28/2002

The CFO, upon consultation with the CRB, may approve deviations from any of the policies and guidelines contained in this chapter.

249.4 MANDATORY REFERENCES

249.4.1 External Mandatory References
Effective date: 01/28/2002

a. **Annual "Foreign Operations, Export Financing, and Related Appropriations Acts" (see "Development Credit Account") which refer to Section 107A(d) of the Foreign Assistance Act of 1961, as contained in Section 306 of H.R. 1486 as reported by the House Committee on International Relations on May 9, 1997**

b. **Foreign Assistance Act of 1961, as amended (FAA), Part 1; Section 635(a)**

c. **OMB Circular A-129**

249.4.2 Internal Mandatory References
Effective date: 01/28/2002

a. **ADS 202, Achieving**

b. **ADS 623, Financial Management of Credit Programs**

c. USAID Development Credit Risk Assessment Handbook

249.5 ADDITIONAL HELP

Effective date: 01/28/2002

a. **ADS 103, Delegations of Authority**

b. **DCA Operations Manual**

Questions should be addressed to EGAT/DC and GC/EGAT. See the following web site for additional helpful information:

http://www.usaid.gov/economic_growth/egad/ci/dca2.htm

249.6 DEFINITIONS

Effective date: 01/28/2002

Credit Review Board
The Credit Review Board (CRB) is an internal advisory committee reporting to the USAID Chief Financial Officer (CFO). Pursuant to the CRB Charter, the CRB has the responsibility to recommend, for the CFO's final determination, the credit subsidy cost of each proposed DCA activity. The Charter further provides that the CRB recommends policies and procedures designed to ensure the financial soundness of all USAID credit programs, including DCA. (Chapter 249)

Interagency Country Risk Assessment System (ICRAS)

The Interagency Country Risk Assessment System (ICRAS) is a confidential interagency process through which the credit risk associated with U.S. credit assistance to foreign countries is assessed periodically (at least once every three years, and annually for key borrowing nations). An interagency group chaired by OMB uses common standards for country risk assessment to rate countries on a scale of A to F- on the basis of economic and political/social variables. Each country receives two ratings: a sovereign (official government) risk rating and a private risk rating, the latter assessing a country's market environment for nonsovereign transactions. (Chapter 249)

nonsovereign risk
Private sector risk not backed by the full faith and credit of a sovereign nation. A risk assessment model approved by the Credit Review Board must be used to calculate the credit subsidy cost estimate for a DCA activity when the borrower is a nonsovereign entity. (Chapter 249)

sovereign risk
Risk undertaken by a sovereign government or a sovereign entity that is backed by the full faith and credit of a sovereign government. (Chapter 249)

subsidy cost
The cost of a grant of financial aid, usually by a governmental body, to some person or institution for particular purposes. Credit subsidy cost is the estimated long-term cost to

the government of direct loans or loan guarantees calculated on a net present value basis, excluding administrative costs. Direct loan subsidy cost is the estimated long-term cost to the government of direct loans calculated on a present value basis, excluding administrative costs. The cost is the present value of estimated net cash outflows at the time the direct loans are disbursed. The discount rate used for the calculation is the average interest rate (yield) on marketable Treasury securities of similar maturity to the loan, applicable to the time when the loans are disbursed. Loan guarantee subsidy cost is the estimated long-term cost to the government of loan guarantees calculated on a present value basis, excluding administrative costs. The cost is the present value of estimated net cash outflows at the time the guaranteed loans are disbursed by the lender. The discount rate used for the calculation is the average interest rate (yield) on marketable Treasury securities of similar maturity to the loan guarantees, applicable to the time when the guaranteed loans are disbursed. (OMB Circular No. A-11) (Chapters 249, 623)

subsovereign risk
Risk undertaken by municipalities or parastatal organizations that is not backed by the full faith and credit of a sovereign nation. (Chapter 249)

249_061402_w081902